U.S. Economy Barely Grew In Q4, But Rebound Likely

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WASHINGTON (AP) — The weakest quarter for the U.S. economy in nearly two years may end up being a temporary lull. Economists think growth has begun to pick up on the strength of a sustained housing recovery and a better job market.

The economy grew at an annual rate of just 0.1 percent from October from December, a government report Thursday showed. That's only slightly better than the Commerce Department's previous estimate that the economy shrank at a rate of 0.1 percent. And it's down from the 3.1 percent annual growth rate in the July-September quarter.

Economists said the weakness last quarter was caused by steep defense cuts and slower company restocking, which are volatile. Residential construction, consumer spending and business investment — core drivers of growth — all improved. Steady job growth will likely keep consumers spending, despite higher Social Security taxes that have cut into take-home pay.

Analysts think growth is picking up in the January-March quarter to a roughly 2 percent annual rate. The only impediment may be the across-the-board government spending cuts that kick in Friday — especially if those cuts remain in place for months.

"I continue to have some optimism about the economy despite the efforts of Washington to kill it, because the labor market continues to improve," said Joel Naroff, chief economist at Naroff Economic Advisers

The latest indication of the job market's strength came Thursday in a government report that the number of Americans seeking weekly unemployment benefits fell 22,000 last week to a seasonally adjusted 344,000.

Applications for unemployment have fallen steadily in recent months. The four-week average has declined nearly 11 percent since November. At the same time, employers added an average of 200,000 jobs a month from November through January. That was up from about 150,000 in the previous three months.

Naroff thinks the economy could grow at an annual rate of around 2 percent in the first quarter of 2013 and an even better rate of 4 percent in the April-June quarter. But he and other economists warn that lawmakers will slow growth if they fail to reach a budget agreement indefinitely. If the spending cuts last two weeks or longer, Naroff said they could shave a half-percentage point off first-quarter growth and a full percentage point off second-quarter growth.

Paul Ashworth, chief U.S. economist at Capital Economics, predicts growth could be as high as 2 percent in the current quarter. Alan Levenson, chief economist for T. Rowe Price, said growth could be as high as 2.5 percent.

Ashworth noted that a sharp decline in defense spending and slower business restocking subtracted 2.9 percentage points from growth in the fourth quarter. At the same time, consumer spending and business investment — two key drivers of growth — accelerated at the end of last year.

"We still believe that the fourth-quarter GDP figures were a lot better than the headline stagnation suggests," said Ashworth.

More jobs and ultra-low mortgage rates are helping the once-battered housing market recover. New-home sales jumped 16 percent to their highest level in 4½ years in January.

At the same time, the number of new homes available for sale remains near record lows. That means builders will likely have to start construction on more homes and apartments to keep up with demand. That should create more construction jobs.

Home prices also rose in December compared with the same month a year ago by the most in more than six years. Rising home values contribute to the housing recovery and the broader economy. They encourage more people to buy before prices rise further. Higher prices also build homeowners' wealth, which can spur more spending and economic growth.

Businesses and consumers are also showing greater confidence despite automatic spending cuts scheduled to take effect on Friday. A measure of consumer confidence rebounded in February after a sharp fall the previous month that likely was a result of the tax increase.

Companies, meanwhile, sharply increased orders in January for a category of long-lasting manufactured goods that reflect their investment plans. That suggests they are confident about their business prospects.

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